

**Testimony of  
Thomas A. Schatz  
President  
Citizens Against Government Waste  
Before the House Committee on the Budget  
June 8, 2000**

Mr. Chairman, members of the committee, thank you for the opportunity to testify today. In particular, I would also like to thank Mr. Hoeffel for addressing the issue of corporate welfare with H.R. 3221. My name is Tom Schatz. I am the president of Citizens Against Government Waste (CAGW), a 600,000 member nonprofit organization dedicated to eliminating waste, fraud and abuse in government. Citizens Against Government Waste has never received any federal grants and we do not wish to receive them at any time in the future.

CAGW was created 16 years ago after Peter Grace presented to President Ronald Reagan 2,478 findings and recommendations of the Grace Commission (formally known as the President's Private Sector Survey on Cost Control). These recommendations provided a blueprint for a more efficient, effective and smaller government.

Since 1984, the implementation of Grace Commission recommendations has helped save taxpayers more than \$625.4 billion. CAGW has been working tirelessly to carry out the Grace Commission's mission to eliminate government waste.

The preamble of the Constitution outlines the foundation of our government by stating its purpose to "promote the general welfare." This is quite different than distributing selected benefits for the *specific welfare* of selected companies, organizations and individuals.

Thomas Jefferson articulated the premise of the Constitution and the genius of our political and economic system by noting that: "The policy of the American government is to leave their citizens free, neither restraining nor aiding them in their pursuits."

Jefferson recognized all things do not flow from a central government, nor does every conceivable human endeavor need a department to manage its activity or guarantee its continued vitality. Not only is it unnecessary, it's harmful.

Jefferson's words have never been more true than when looking at special interest business subsidies, or as it is more commonly known, corporate welfare. American taxpayers earn a living by creating wealth. The government then takes some of the wealth in the form of taxes and redistributes a portion of it to those who can find money elsewhere or who don't need it at all.

There are many agencies that house these business subsidies, but the most notorious is The Department of Commerce. The Department of Commerce is a classic example of a rudderless, ever-expanding bureaucracy. According to its own Inspector General, the department has evolved into "a loose collection of more than 100 programs delivering services to about 1,000 customer bases."

The General Accounting Office says the Department has “the most complex web of divided authorities,” and “shares missions with at least 71 federal departments, agencies, and offices.” Former Commerce Secretary Robert Mosbacher said the Department is “nothing more than a hall closet where you throw everything that you don't know what to do with.”

More than \$609 million was spent last year by just three of the Department's many subsidy programs: the Advanced Technology Program, the Economic Development Administration and the Manufacturing Extension Partnership. Those who support using taxpayer money to fund benefits to the politically favored will assuredly claim that this is a small percentage of the federal budget and isn't much money. Any taxpayer will tell you that the \$609 million is quite real.

This \$609 million is being siphoned away from the taxpayer so that Washington can dole out favors. Every dollar taken in taxes so that Washington can determine who gets subsidized is one less dollar that can be invested in the private sector.

Government handouts also penalize successful companies by forcing them to subsidize their competition. Promising technology and companies are well funded by private investors. Poor investments and less-promising companies can't attract private investment, so they seek government subsidies instead. This forces the successful companies who have paid their dues, taken risks and incurred losses for many years to subsidize their competition with their tax burden.

For example, a few years ago, a company had developed video-compression technology after years of investment in R&D. This new technology promises to reshape picture transmission for television, computers and the internet. Once the technology began to take off and the company started making a profit, the Department of Commerce funded one of their competitors through the Advanced Technology Program to develop the same technology.

Defenders of these subsidies claim that they are necessary because the programs that they fund aren't adequately pursued by private investors due to their high degree of risk.

T.J. Rogers, founder of Cypress Semiconductor, notes that the “high-risk” argument used by the Department of Commerce is usually justification to subsidize poor investments. He emphasizes that the important evaluation is the return on investment (ROI), not risk. Investments with a reasonable or low risk and a good return are enthusiastically supported by private investors because they are seen as a wise use of their money. Investments with high risk and ordinary or low return are those that are given government subsidies.

High-definition TV is one of the clearest failures of government technology handouts. Japanese businesses, with subsidies that totaled \$1 billion in the late 1980's, sought to develop HDTV using existing analog technology. The French did the same.

In the United States, \$1.2 billion in government subsidies requested to compete with these foreign rivals was denied. In the absence of government handouts, American companies went on to develop an alternative technology with their own money.

In Japan, HDTV was transmitted by satellite. The picture quality was only marginally better than their standard signal, and special televisions were required to receive HDTV. The Japanese people responded to this massively subsidized technology by doing nothing: they refused to purchase the televisions required to receive the signal.

Alternatively, the digital technology developed by the American companies made the Japanese analog system obsolete. As a result, the Japanese announced plans to adopt the American system. The Japanese and European taxpayers lost \$2 billion because their governments handed out subsidies. The U.S. relied on the market, and the results proved that the market works.

Defenders of centralized technology policy will claim that ATP and other high-technology handouts are essential to maintain our nation's research and development. Hogwash. While the \$609 million distributed last year by Washington is a lot of money, it pales in comparison to actual investments made by the private sector. According to the National Venture Capital Association, more than \$38 billion was invested in high technology in 1999. Government subsidies amounted to slightly more than one percent of this amount. Clearly, the private sector is driving R&D.

Economic growth and technical innovations are not a result of selective government subsidies; they are the result of the genius and insight of the American people operating in the free market.

High taxes and large subsidies fuel each other's growth. In 1993, the largest tax increase in history was enacted. In 1994, the Advanced Technology Program was funded at its highest level ever. Increasing the tax burden on American families and industry so that bureaucrats can give some of it back to the politically powerful is not right, nor is it economically beneficial (except, of course, to those receiving the subsidy).

The appropriate way to enhance the competitiveness and productivity of American industry is to minimize government interference in the marketplace and substantially reduce tax rates and regulatory burdens.

Tim Draper, a Silicon Valley venture capitalist, flatly states that "government subsidies...winners and losers selected by non-market forces...simply distort the market. This is not just a waste; it is just plain wrong. The government's job should be to let the market do its job. The best thing bureaucrats and politicians can do is leave us alone."

Agencies like the Department of Commerce and programs such as ATP distort and harm the relationship between business and government. Last year the House Appropriations Committee called for the elimination of ATP, stating: "After many years in existence, the program has not produced a body of evidence to overcome those fundamental questions about whether the program should exist in the first place." The report continued, "Given the tremendous financial constraints under which the Committee is operating, the question becomes whether it is worthwhile to continue to fund a program of questionable value, particularly one that costs over \$200,000,000 a year."

The General Accounting Office (GAO) weighed in on ATP in March of this year. GAO identified three completed ATP projects that addressed goals similar to those already funded by the

private sector: an on-line handwriting recognition system, a system to increase the capacity of existing fiber optic cables, and a process for turning collagen into fibers for human prostheses.

The Department of Commerce set up a peer review process to study distribution of ATP funds to ensure prudent spending. Unfortunately, this process is flawed. According to GAO, ATP's conflict-of-interest provision limits its ability to identify similar research. Federal government employees, who are general experts in the particular field, are utilized to review grant applications. The problem is that these reviewers are not directly involved with the proposed research area, limiting their ability to identify similar research. The second problem identified by GAO was that information regarding research by other companies was not available because it was proprietary. Early release of any information could damage a firm's ability to get to the marketplace first.

GAO understands these concerns and suggests that these two peer-review safeguards remain in place to ensure that private sector research is protected.

If these precautions cannot guarantee a wise expenditure of funds, there should be no expenditure of funds. The federal government cannot award grants without compromising the secrets of the private sector. In other words, ATP simply can never function effectively, and the government should bring an end to this unsuccessful intervention into the high tech marketplace.

Let me conclude by emphasizing that Citizens Against Government Waste is not anti-business. Industrialist Peter Grace, who founded CAGW, understood the importance of the private sector's leading role in the economy. CAGW supports a strong vibrant economy based on the skills and sweat of entrepreneurs, not the arbitrary system of picking winners and losers by the federal government through special business subsidies.

Thank you for the opportunity to appear today before the Committee. I will be happy to answer any questions you may have.